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Talking Points for the DDCI
(13 September 1983)
Political and Economic Scene in Israel

Domestic Scene

Foreign Minister Shamir has reached an agreement in principle with all the factions in the ruling coalition to form a new government on the basis of the current coalition agreement.

- He apparently gave in to demands by coalition partners to review budget cuts approved by the Cabinet last month and to support religious legislation.
- The way is now cleared for Prime Minister Begin to submit his formal resignation to President Herzog, probably within a few days.
- It could still be some weeks before all the details of forming a new coalition are worked out and Shamir takes office, but no major changes in the current composition of the Cabinet are expected.

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The Economy

The new government will face a sluggish economy, triple-digit inflation, and a growing trade deficit.

- Even if the new Cabinet carries out the tax increases and spending cuts approved last month, the impact will probably be minimal.
- Settlement of the doctors' strike will almost certainly lead to demands for higher wages from other workers. Acquiescence will only add to the large increases in private consumption in recent years and increase pressure on prices.
- Despite the 7-percent devaluation of the shekel in August, the Israeli currency is still overvalued, reducing the competitiveness of Israeli exports and boosting imports because they are relatively cheap.

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Israeli Views on Lebanon

Israel has decided, for the moment at least, to concentrate its efforts on building workable security arrangements in southern Lebanon and on avoiding involvement in the current fighting.

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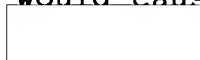
- Contacts with key groups north of the Awwali River, particularly Druze and Phalange, continue.



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Israel now looks to the US to take the lead in shoring up Gemayel's government and reducing Syrian influence.

- Tel Aviv is nervous, however, that Washington may offer Damascus political concessions--probably at Israel's expense--to induce Assad to reach some limited, tacit accommodation with Gemayel.
- Tel Aviv is particularly concerned that Washington may offer to try to persuade Israel to open negotiations on the Golan Heights as part of a package deal on Lebanon.
- Any public statement by Beirut abrogating the Lebanese accord would be unacceptable to Tel Aviv and probably would cause the Israelis to reexamine their policy.



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